

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

GENERAL PURPOSE FINANCIAL STATEMENTS
RECEIVED
DEPT. OF TREASURY
AND SUPPLEMENTARY INFORMATION

✓ JUN - 2 2004
Year Ended March 31, 2004

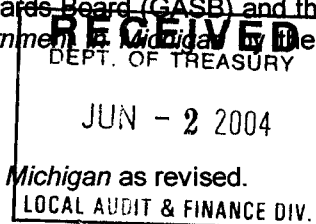
FINANCE DIV.

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Deerfield	County Lapeer
Audit Date March 31, 2004	Opinion Date May 15, 2004	Date Accountant Report Submitted to State: May 15, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

May 15, 2004

To the Township Board
Township of Deerfield
Lapeer County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Deerfield, Lapeer County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Deerfield's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Deerfield, Lapeer County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Deerfield, Lapeer County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

EXHIBIT A

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Agency</u>
<u>Assets</u>				
Cash in bank	141 340 25	138 599 05	251 076 87	9 625 00
Investments	398 808 21	-	1 567 67	-
Cash on hand	100 00	-	-	-
Taxes receivable	28 677 78	-	-	-
Special assessments receivable	-	73 764 37	5 552 66	-
Due from other funds	525 00	-	-	-
Land and improvements	-	-	-	-
Buildings	-	-	-	-
Equipment	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
Total Assets	<u>569 451 24</u>	<u>212 363 42</u>	<u>258 197 20</u>	<u>9 625 00</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Due to other funds	-	-	-	525 00
Due to others	-	-	-	9 100 00
Deferred revenue	-	60 636 82	-	-
Bonds payable	-	-	-	-
Contracts payable	-	-	-	-
Total liabilities	<u>-</u>	<u>60 636 82</u>	<u>-</u>	<u>9 625 00</u>
Fund equity:				
Investment in general fixed assets	-	-	-	-
Fund balances:				
Unreserved:				
Undesignated	<u>569 451 24</u>	<u>151 726 60</u>	<u>258 197 20</u>	<u>-</u>
Total fund equity	<u>569 451 24</u>	<u>151 726 60</u>	<u>258 197 20</u>	<u>-</u>
Total Liabilities and Fund Equity	<u>569 451 24</u>	<u>212 363 42</u>	<u>258 197 20</u>	<u>9 625 00</u>

The accompanying notes are an integral part of these financial statements.

<u>Account Groups</u>		<u>Total</u>
<u>General</u>	<u>General Long-</u>	<u>(Memorandum</u>
<u>Fixed Assets</u>	<u>Term Debt</u>	<u>Only)</u>
-	-	540 641 17
-	-	400 375 88
-	-	100 00
-	-	28 677 78
-	-	79 317 03
-	-	525 00
52 923 26	-	52 923 26
1 089 094 00	-	1 089 094 00
1 084 573 99	-	1 084 573 99
<u>-</u>	<u>509 585 28</u>	<u>509 585 28</u>
<u>2 226 591 25</u>	<u>509 585 28</u>	<u>3 785 813 39</u>
-	-	525 00
-	-	9 100 00
-	-	60 636 82
-	80 000 00	80 000 00
-	<u>429 585 28</u>	<u>429 585 28</u>
<u>-</u>	<u>509 585 28</u>	<u>579 847 10</u>
2 226 591 25	-	2 226 591 25
<u>-</u>	<u>-</u>	<u>979 375 04</u>
<u>2 226 591 25</u>	<u>-</u>	<u>3 205 966 29</u>
<u>2 226 591 25</u>	<u>509 585 28</u>	<u>3 785 813 39</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B
Page 1

	<u>Governmental Fund Types</u>			Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Revenues:				
Property taxes	184 332 10	-	-	184 332 10
Special assessments	6 000 00	106 482 45	51 200 27	163 682 72
Licenses and permits	13 563 15	-	-	13 563 15
State revenue sharing	406 206 30	-	-	406 206 30
Charges for services:				
Property tax administration	34 954 35	-	-	34 954 35
Other	-	42 466 66	-	42 466 66
Interest	4 482 55	829 59	1 209 25	6 521 39
Rents	21 301 00	-	-	21 301 00
Miscellaneous	15 281 05	1 914 68	-	17 195 73
Total revenues	<u>686 120 50</u>	<u>151 693 38</u>	<u>52 409 52</u>	<u>890 223 40</u>
Expenditures:				
Legislative:				
Township Board	19 930 15	-	-	19 930 15
General government:				
Supervisor	18 029 69	-	-	18 029 69
Elections	4 947 00	-	-	4 947 00
Audit	3 700 00	-	-	3 700 00
Assessor	25 425 44	-	-	25 425 44
Attorney	19 417 21	-	-	19 417 21
Clerk	32 947 59	-	-	32 947 59
Board of Review	687 76	-	-	687 76
Office	50 909 46	-	-	50 909 46
Treasurer	42 855 28	-	-	42 855 28
Building and grounds	97 976 32	-	-	97 976 32
Cemetery	-	15 341 39	-	15 341 39
Public safety:				
Police protection	111 415 15	-	-	111 415 15
Fire protection	4 728 38	117 058 70	-	121 787 08
Ambulance	8 704 00	-	-	8 704 00
Protective inspection	7 218 92	-	-	7 218 92
Planning Commission	3 246 71	-	-	3 246 71
Board of Appeals	2 660 80	-	-	2 660 80

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B

Page 2

	<u>Governmental Fund Types</u>			<u>Total</u>
	<u>General</u>	<u>Special</u>	<u>Capital</u>	<u>(Memorandum</u>
		<u>Revenue</u>	<u>Projects</u>	<u>Only)</u>
Expenditures (continued):				
Public safety: (continued)				
Recycling	5 506 56	-	-	5 506 56
Transit	705 00	-	-	705 00
Public works:				
Highways and streets	2 135 42	-	234 631 47	236 766 89
Lake weed control	-	-	38 186 02	38 186 02
Culture and recreation:				
Parks	2 137 94	-	-	2 137 94
Other:				
Insurance	34 713 50	-	-	34 713 50
Capital outlay	5 934 52	180 086 34	-	186 020 86
Debt service	-	25 651 80	60 875 50	86 527 30
Total expenditures	<u>505 932 80</u>	<u>338 138 23</u>	<u>333 692 99</u>	<u>1 177 764 02</u>
Excess (deficiency) of revenues over expenditures	<u>180 187 70</u>	<u>(186 444 85)</u>	<u>(281 283 47)</u>	<u>(287 540 62)</u>
Other financing sources (uses):				
Operating transfers in	-	-	252 687 45	252 687 45
Operating transfers out	(252 687 45)	-	-	(252 687 45)
Loan proceeds	-	129 850 00	-	129 850 00
Total other financing sources (uses)	<u>(252 687 45)</u>	<u>129 850 00</u>	<u>252 687 45</u>	<u>129 850 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(72 499 75)</u>	<u>(56 594 85)</u>	<u>(28 596 02)</u>	<u>(157 690 62)</u>
Fund balances, April 1	<u>641 950 99</u>	<u>208 321 45</u>	<u>286 793 22</u>	<u>1 137 065 66</u>
Fund Balances, March 31	<u>569 451 24</u>	<u>151 726 60</u>	<u>258 197 20</u>	<u>979 375 04</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS

Year Ended March 31, 2004

EXHIBIT C
Page 1

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	20 000 00	184 332 10	164 332 10
Special assessments	-	6 000 00	6 000 00
Licenses and permits	14 400 00	13 563 15	(836 85)
State revenue sharing	446 550 00	406 206 30	(40 343 70)
Charges for services:			
Property tax administration	34 000 00	34 954 35	954 35
Other	-	-	-
Interest	3 000 00	4 482 55	1 482 55
Rents	21 000 00	21 301 00	301 00
Miscellaneous	<u>3 980 00</u>	<u>15 281 05</u>	<u>11 301 05</u>
Total revenues	<u>542 930 00</u>	<u>686 120 50</u>	<u>143 190 50</u>
Expenditures:			
Legislative:			
Township Board	25 300 00	19 930 15	(5 369 85)
General government:			
Supervisor	16 100 00	18 029 69	1 929 69
Elections	5 350 00	4 947 00	(403 00)
Audit	3 889 00	3 700 00	(189 00)
Assessor	25 450 00	25 425 44	(24 56)
Attorney	20 000 00	19 417 21	(582 79)
Clerk	37 000 00	32 947 59	(4 052 41)
Board of Review	1 400 00	687 76	(712 24)
Office	51 400 00	50 909 46	(490 54)
Treasurer	46 410 00	42 855 28	(3 554 72)
Building and grounds	98 750 00	97 976 32	(773 68)
Cemetery	-	-	-
Public safety:			
Police protection	111 500 00	111 415 15	(84 85)
Fire protection	5 000 00	4 728 38	(271 62)
Ambulance	5 000 00	8 704 00	3 704 00
Protective inspection	7 370 00	7 218 92	(151 08)
Planning Commission	5 550 00	3 246 71	(2 303 29)
Board of Appeals	2 661 00	2 660 80	(20)

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Funds</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
-	-	-
337 063 00	106 482 45	(230 580 55)
-	-	-
-	-	-
-	-	-
12 800 00	42 466 66	29 666 66
-	829 59	829 59
-	-	-
-	1 914 68	1 914 68
<u>349 863 00</u>	<u>151 693 38</u>	<u>(198 169 62)</u>
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
7 800 00	15 341 39	7 541 39
-	-	-
60 000 00	117 058 70	57 058 70
-	-	-
-	-	-
-	-	-
-	-	-

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL –
GENERAL AND SPECIAL REVENUE FUNDS

Year Ended March 31, 2004

EXHIBIT C
Page 2

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Expenditures (continued):			
Public safety: (continued)			
Recycling	5 500 00	5 506 56	6 56
Transit	1 500 00	705 00	(795 00)
Public works:			
Highways and streets	4 200 00	2 135 42	(2 064 58)
Culture and recreation:			
Parks	2 600 00	2 137 94	(462 06)
Other:			
Insurance	35 000 00	34 713 50	(286 50)
Contingency	20 000 00	-	(20 000 00)
Capital outlay	6 000 00	5 934 52	(65 48)
Debt service	-	-	-
Total expenditures	<u>542 930 00</u>	<u>505 932 80</u>	<u>(36 997 20)</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>180 187 70</u>	<u>180 187 70</u>
Other financing sources (uses):			
Operating transfers out	-	(252 687 45)	(252 687 45)
Loan proceeds	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>(252 687 45)</u>	<u>(252 687 45)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	(72 499 75)	(72 499 75)
Fund balances, April 1	<u>-</u>	<u>641 950 99</u>	<u>641 950 99</u>
Fund Balances, March 31	<u>-</u>	<u>569 451 24</u>	<u>569 451 24</u>

The accompanying notes are an integral part of these financial statements.

<u>Special Revenue Funds</u>		
<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
-	-	-
-	-	-
169 000 00	-	(169 000 00)
-	-	-
-	-	-
-	-	-
107 063 00	180 086 34	73 023 34
<u>6 000 00</u>	<u>25 651 80</u>	<u>19 651 80</u>
<u>349 863 00</u>	<u>338 138 23</u>	<u>(11 724 77)</u>
<u>-</u>	<u>(186 444 85)</u>	<u>(186 444 85)</u>
-	-	-
<u>-</u>	<u>129 850 00</u>	<u>129 850 00</u>
<u>-</u>	<u>129 850 00</u>	<u>129 850 00</u>
-	(56 594 85)	(56 594 85)
<u>-</u>	<u>208 321 45</u>	<u>208 321 45</u>
<u>-</u>	<u>151 726 60</u>	<u>151 726 60</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Deerfield, Lapeer County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Deerfield. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative actions.

Capital Projects Funds

These funds are used to account for the acquisition or construction of major capital facilities other than those financed by proprietary fund operations and special assessments.

Fiduciary Funds

The Current Tax Collection and Agency Funds are used to account for assets held as an agent for others.

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Account Groups

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

General Long-Term Debt Account Group

This account group presents the balance of general obligation long-term debt which is not recorded in proprietary funds.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurements focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Property Taxes

Property taxes and other revenues that are both measurable and available for use to finance operations are recorded as revenue when earned.

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Property Taxes (continued)

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28, before they are added to the county tax rolls. The Township 2003 tax roll millage rate was 1.3586 mills, and the taxable value was \$136,102,173.00.

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting (continued)

2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks;

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 2 – Deposits and Investments (continued)

commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>540 641 17</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	109 740 82
Uninsured and Uncollateralized	<u>438 179 20</u>
Total Deposits	<u>547 920 02</u>

The Township's investments are categorized below to give an indication of the level of risk assumed by the Township. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Township or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 2 – Deposits and Investments (continued)

The GASB Statement No. 3 risk disclosures for the Township's investments are categorized as follows:

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
<u>Investment Type</u>				
Risk-Categorized: Operating Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Nonrisk-Categorized: Financial Institution Pooled Funds				<u>400 375 88</u>
Total Investments				<u>400 375 88</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

Note 3 – Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land and land improvements	52 923 26	-	-	52 923 26
Buildings	1 089 094 00	-	-	1 089 094 00
Equipment	<u>898 553 13</u>	<u>186 020 86</u>	<u>-</u>	<u>1 084 573 99</u>
Totals	<u>2 040 570 39</u>	<u>186 020 86</u>	<u>-</u>	<u>2 226 591 25</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>525 00</u>	Current Tax Collection	<u>525 00</u>
Total	<u><u>525 00</u></u>	Total	<u><u>525 00</u></u>

Note 5 – Changes in General Long-Term Debt

A summary of changes in general long-term debt follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/04</u>
Bonds payable – road Resurfacing	85 000 00	-	5 000 00	80 000 00
Contract payable – Lapeer County Road Commission	250 000 00	-	50 000 00	200 000 00
Contract payable – 2000 fire truck	113 653 65	-	13 918 37	99 735 28
Contract payable – 2003 fire truck	<u>-</u>	<u>129 850 00</u>	<u>-</u>	<u>129 850 00</u>
Totals	<u><u>448 653 65</u></u>	<u><u>129 850 00</u></u>	<u><u>68 918 37</u></u>	<u><u>509 585 28</u></u>

Note 6 – Bonds Payable – 2002 Road Resurfacing

On December 12, 2002, the Township sold \$85,000.00 in bonds to finance a road resurfacing project. The bonds are payable over a ten year period beginning April 1, 2003, including interest at the rate of 3.8% per annum. As of March 31, 2004, \$80,000.00 of the bond principal was outstanding and it is recorded in the General Long-Term Debt Group of Accounts.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
4/1/2004	3.8%	5 000 00
4/1/2005	3.8%	5 000 00
4/1/2006	3.8%	10 000 00
4/1/2007	3.8%	10 000 00
4/1/2008	3.8%	10 000 00

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 6 – Bonds Payable – 2002 Road Resurfacing (continued)

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
4/1/2009	3.8%	10 000 00
4/1/2010	3.8%	10 000 00
4/1/2011	3.8%	10 000 00
4/1/2012	3.8%	<u>10 000 00</u>
Total		<u>80 000 00</u>

Note 7 – Contract Payable – Lapeer County Road Commission

On January 14, 1997, the Township entered into a contract to pay the Lapeer County Road Commission the total amount of \$500,000.00 over a ten year period for road improvements that were made during the fiscal year ending March 31, 1999. The payments are due in semi-annual payments beginning February 1, 1998, including interest at rate from 4.9% to 7.0% per annum. As of March 31, 2004, the principal balance of the contract payable was \$200,000.00 and it is recorded in the General Long-Term Debt Group of Accounts.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
8-1-04	4.70	50 000 00
8-1-05	4.75	50 000 00
8-1-06	4.80	50 000 00
8-1-07	4.90	<u>50 000 00</u>
Total		<u>200 000 00</u>

Note 8 – Contract Payable – 2000 Fire Truck

On July 14, 1999, the Township entered into a contract to purchase a fire truck. The contract repayments are due in ten annual installments of \$19,709.72 including interest, beginning July 15, 2000, through July 15, 2009. The contract is recorded in the General Long-Term Debt Group of Accounts.

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 9 – Contract Payable – 2003 Fire Truck

On December 24, 2002, the Township entered into a contract to purchase a fire truck. The contract repayments are due in eight annual installments of \$19,932.00 including interest, beginning April 10, 2004, through April 10, 2011. The contract is recorded in the General Long-Term Debt Group of Accounts.

Note 10 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 11 – Budget Variances

Public Act 621 of 1978 requires that a municipality shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township were adopted on an activity level, and amended periodically by the Township Board. During the year ended March 31, 2004, the Township incurred expenditures in certain activities which were in excess of the amounts appropriated.

<u>Fund/Activity:</u>	<u>Total Budget</u>	<u>Total Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Supervisor	16 100 00	18 029 69	1 929 69
Ambulance	5 000 00	8 704 00	3 704 00
Recycling	5 500 00	5 506 56	6 56
Fire Fund:			
Fire protection	60 000 00	117 058 70	57 058 70
Capital outlay	107 063 00	180 086 34	73 023 34
Debt service	-	19 709 72	19 709 72
Cemetery Fund:			
Cemetery	7 800 00	15 341 39	7 541 39

Note 12 – Pension Plan

The Township has a defined contribution pension plan covering all elected officials and full-time employees. The Township contributes an amount of each employee's annual salary to the plan. Pension expense for the fiscal year ended March 31, 2004, was \$16,850.00.

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 13 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 14 – Transfers In and Transfers Out

For the fiscal year ended, March 31, 2004, the Township made the following interfund transfers:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Revolving Improvement	<u>252 687 45</u>	General	<u>252 687 45</u>
Total	<u>252 687 45</u>	Total	<u>252 687 45</u>

Note 15 – Building Permits

The Township of Deerfield does not issue building permits. Building permits are issued by the Construction Code Authority, which is a local governmental unit.

Note 16 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 1

Township Board:	
Wages	6 708 18
Pension	1 850 00
Printing and publishing	6 353 55
Training and dues	3 248 99
Miscellaneous	1 769 43
	<u>19 930 15</u>
Supervisor:	
Salary	13 333 31
Pension	3 000 00
Miscellaneous	1 696 38
	<u>18 029 69</u>
Elections:	
Wages	2 008 51
Miscellaneous	2 938 49
	<u>4 947 00</u>
Audit:	
Professional services	3 700 00
	<u>3 700 00</u>
Assessor:	
Contracted services	23 100 00
Supplies	2 325 44
	<u>25 425 44</u>
Attorney:	
Professional services	19 417 21
	<u>19 417 21</u>
Clerk:	
Wages	19 999 92
Wages – Deputy	5 723 47
Pension	4 500 00
Supplies	2 724 20
	<u>32 947 59</u>
Board of Review:	
Wages	494 00
Training and education	193 76
	<u>687 76</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 2

Office:	
Wages	15 623 64
Pension	3 250 00
Supplies	11 652 54
Telephone	9 197 13
Repairs and maintenance	6 807 67
Miscellaneous	4 378 48
	<u>50 909 46</u>
Treasurer:	
Wages	21 999 96
Wages – Deputy	7 230 48
Pension	4 250 00
Supplies	4 327 75
Miscellaneous	5 047 09
	<u>42 855 28</u>
Building and grounds:	
Wages	1 080 00
Contracted services	28 497 00
Supplies	254 00
Miscellaneous	6 731 04
Utilities	30 066 15
Repairs and maintenance	31 348 13
	<u>97 976 32</u>
Police protection:	
Contracted services	105 841 56
Supplies	3 556 28
Repairs and maintenance	2 017 31
	<u>111 415 15</u>
Fire protection:	
Contracted services	4 728 38
	<u>4 728 38</u>
Ambulance:	
Contracted services	8 704 00
	<u>8 704 00</u>
Protective inspection:	
Contracted services	7 218 92
	<u>7 218 92</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2004

EXHIBIT D
Page 3

Planning Commission:	
Wages	2 580 00
Miscellaneous	<u>666 71</u>
	<u>3 246 71</u>
Board of Appeals:	
Wages	1 570 00
Miscellaneous	<u>1 090 80</u>
	<u>2 660 80</u>
Recycling:	
Contracted services	<u>5 506 56</u>
Transit:	
Contracted services	<u>705 00</u>
Highways and streets:	
Contracted services	<u>2 135 42</u>
Parks:	
Wages	480 00
Repairs and maintenance	140 87
Miscellaneous	<u>1 517 07</u>
	<u>2 137 94</u>
Insurance	<u>34 713 50</u>
Capital outlay	<u>5 934 52</u>
Total Expenditures	<u>505 932 80</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2004

EXHIBIT E

	<u>Road Resurfacing</u>	<u>Fire</u>	<u>Cemetery</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	22 696 87	102 595 69	13 306 49	138 599 05
Special assessments receivable	<u>61 316 05</u>	<u>12 448 32</u>	<u>-</u>	<u>73 764 37</u>
Total Assets	<u>84 012 92</u>	<u>115 044 01</u>	<u>13 306 49</u>	<u>212 363 42</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Deferred revenue	<u>60 636 82</u>	<u>-</u>	<u>-</u>	<u>60 636 82</u>
Fund balances:				
Unreserved:				
Undesignated	<u>23 376 10</u>	<u>115 044 01</u>	<u>13 306 49</u>	<u>151 726 60</u>
Total fund balances	<u>23 376 10</u>	<u>115 044 01</u>	<u>13 306 49</u>	<u>151 726 60</u>
Total Liabilities and Fund Balances	<u>84 012 92</u>	<u>115 044 01</u>	<u>13 306 49</u>	<u>212 363 42</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS

EXHIBIT F

Year Ended March 31, 2004

	<u>Road Resurfacing</u>	<u>Fire</u>	<u>Cemetery</u>	<u>Total</u>
Revenues:				
Special assessments	14 462 45	92 020 00	-	106 482 45
Charges for services	-	29 269 12	13 197 54	42 466 66
Interest	93 99	646 82	88 78	829 59
Miscellaneous	<u>-</u>	<u>1 914 68</u>	<u>-</u>	<u>1 914 68</u>
Total revenues	<u>14 556 44</u>	<u>123 850 62</u>	<u>13 286 32</u>	<u>151 693 38</u>
Expenditures:				
General government:				
Cemetery	-	-	15 341 39	15 341 39
Public safety:				
Fire protection	-	117 058 70	-	117 058 70
Capital outlay	-	180 086 34	-	25 651 80
Debt service	<u>5 942 08</u>	<u>19 709 72</u>	<u>-</u>	<u>180 086 34</u>
Total expenditures	<u>5 942 08</u>	<u>316 854 76</u>	<u>15 341 39</u>	<u>338 138 23</u>
Excess (deficiency) of revenues over expenditures	<u>8 614 36</u>	<u>(193 004 14)</u>	<u>(2 055 07)</u>	<u>(186 444 85)</u>
Other financing sources (uses):				
Loan proceeds	<u>-</u>	<u>129 850 00</u>	<u>-</u>	<u>129 850 00</u>
Total other financing sources (uses)	<u>-</u>	<u>129 850 00</u>	<u>-</u>	<u>129 850 00</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	8 614 36	(63 154 14)	(2 055 07)	(56 594 85)
Fund balances, April 1	<u>14 761 74</u>	<u>178 198 15</u>	<u>15 361 56</u>	<u>208 321 45</u>
Fund Balances, March 31	<u>23 376 10</u>	<u>115 044 01</u>	<u>13 306 49</u>	<u>151 726 60</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

COMBINING BALANCE SHEET – ALL CAPITAL PROJECTS FUNDS

EXHIBIT G

March 31, 2004

<u>Assets</u>	<u>Revolving Improvement</u>	<u>Barnes Lake Improvement</u>	<u>Total</u>
Cash in bank	141 457 85	109 619 02	251 076 87
Investments	1 567 67	-	1 567 67
Special assessments receivable	<u>-</u>	<u>5 552 66</u>	<u>5 552 66</u>
Total Assets	<u>143 025 52</u>	<u>115 171 68</u>	<u>258 197 20</u>
<u>Liabilities and Fund Balances</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved:			
Undesignated	<u>143 025 52</u>	<u>115 171 68</u>	<u>258 197 20</u>
Total fund balances	<u>143 025 52</u>	<u>115 171 68</u>	<u>258 197 20</u>
Total Liabilities and Fund Balances	<u>143 025 52</u>	<u>115 171 68</u>	<u>258 197 20</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL CAPITAL PROJECTS FUNDS

EXHIBIT H

Year Ended March 31, 2004

	<u>Revolving Improvement</u>	<u>Barnes Lake Improvement</u>	<u>Total</u>
Revenues:			
Special assessments	-	51 200 27	51 200 27
Interest	<u>666 36</u>	<u>542 89</u>	<u>1 209 25</u>
Total revenues	<u>666 36</u>	<u>51 743 16</u>	<u>52 409 52</u>
Expenditures:			
Public works:			
Highways and streets	234 631 47	-	234 631 47
Lake weed control	-	38 186 02	38 186 02
Debt service	<u>60 875 50</u>	<u>-</u>	<u>60 875 50</u>
Total expenditures	<u>295 506 97</u>	<u>38 186 02</u>	<u>333 692 99</u>
Excess (deficiency) of revenues over expenditures	<u>(294 840 61)</u>	<u>13 557 14</u>	<u>(281 283 47)</u>
Other financing sources (uses):			
Operating transfers in	<u>252 687 45</u>	<u>-</u>	<u>252 687 45</u>
Total other financing sources (uses)	<u>252 687 45</u>	<u>-</u>	<u>252 687 45</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(42 153 16)	13 557 14	(28 596 02)
Fund balances, April 1	<u>185 178 68</u>	<u>101 614 54</u>	<u>286 793 22</u>
Fund Balances, March 31	<u>143 025 52</u>	<u>115 171 68</u>	<u>258 197 20</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES – ALL FIDUCIARY FUNDS
Year Ended March 31, 2004

EXHIBIT I

	Balance 4/1/03	Additions	Deductions	Balance 3/31/04
<u>CURRENT TAX COLLECTION FUND</u>				
<u>Assets</u>				
Cash in bank	341 49	3 319 223 98	3 319 040 47	525 00
Total Assets	<u>341 49</u>	<u>3 319 223 98</u>	<u>3 319 040 47</u>	<u>525 00</u>
<u>Liabilities</u>				
Due to other funds	341 49	379 304 49	379 120 98	525 00
Due to others	-	2 939 919 49	2 939 919 49	-
Total Liabilities	<u>341 49</u>	<u>3 319 223 98</u>	<u>3 319 040 47</u>	<u>525 00</u>
<u>AGENCY FUND</u>				
<u>Assets</u>				
Cash in bank	6 532 41	28 594 79	26 027 20	9 100 00
Total Assets	<u>6 532 41</u>	<u>28 594 79</u>	<u>26 027 20</u>	<u>9 100 00</u>
<u>Liabilities</u>				
Due to other funds	-	573 11	573 11	-
Due to others	6 532 41	28 021 68	25 454 09	9 100 00
Total Liabilities	<u>6 532 41</u>	<u>28 594 79</u>	<u>26 027 20</u>	<u>9 100 00</u>
<u>TOTALS – ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash in bank	6 873 90	3 347 818 77	3 345 067 67	9 625 00
Total Assets	<u>6 873 90</u>	<u>3 347 818 77</u>	<u>3 345 067 67</u>	<u>9 625 00</u>
<u>Liabilities</u>				
Due to other funds	341 49	379 877 60	379 694 09	525 00
Due to others	6 532 41	2 967 941 17	2 965 373 58	9 100 00
Total Liabilities	<u>6 873 90</u>	<u>3 347 818 77</u>	<u>3 345 067 67</u>	<u>9 625 00</u>

TOWNSHIP OF DEERFIELD
Lapeer County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year Ended March 31, 2004

EXHIBIT J

Cash in bank -- beginning of year	<u>341 49</u>
Cash receipts:	
Property taxes and assessments	3 287 827 11
Property tax administration	30 364 86
Interest	<u>1 032 01</u>
Total cash receipts	<u>3 319 223 98</u>
Total beginning balance and cash receipts	<u>3 319 565 47</u>
Cash disbursements:	
Township General Fund	219 820 80
Township Barnes Lake Improvement Fund	50 491 68
Township Fire Fund	98 515 40
Township Road Resurfacing Fund	10 293 10
Lapeer County	1 651 369 03
Genesee Intermediate School District	41 355 38
Lapeer Community Schools	42 648 51
Lakeville Schools	111 005 13
North Branch Area Schools	1 071 338 22
State of Michigan	1 515 70
Refunds	<u>20 687 52</u>
Total cash disbursements	<u>3 319 040 47</u>
Cash in Bank -- End of Year	<u>525 00</u>

CAMPBELL, KUSTERER & CO., P.C.

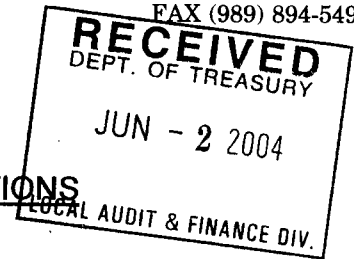
CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS



May 15, 2004

To the Township Board
Township of Deerfield
Lapeer County, Michigan

We have audited the financial statements of the Township of Deerfield, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Deerfield in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Township Board
Township of Deerfield
Lapeer County, Michigan

For this purpose, materiality has been defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.”

An independent auditor’s objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor’s work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management’s current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Township Board
Township of Deerfield
Lapeer County, Michigan

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Deerfield will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants